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HIGHER EDUCATION LEADERSHIP & MANAGEMENT PROJECT

DELIVERABLE 1 (A) ASSESSMENT OF THE HIGHER EDUCATION FINANCIAL POLICY ENVIRONMENT

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The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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HELM Project Abbreviations, Acronyms, and Glossary

BAN-PT	Badan Akreditasi Nasional-PerguruanTinggi (National Accreditation Agency for Higher Education)
BAPPENAS	Badan Perencanaan Pembangunan Nasional (National Development Planning Agency)
BLU	Badan Layanan Umum (a semi-autonomous government entity)
BHMN	Badan Hukum Milik Negara (state owned legal entity-autonomous)
BHP	Badan Hukum Pendidikan (autonomous legal entity under new law)
BidikMisi	Financial Aid (for disadvantaged students)
BINUS	Universitas Bina Nusantara
BPK	Badan Pemeriksaan Keuangan: Supreme Audit Board (external auditing by the Government)
BPMA	Badan Penjamin Mutu (Academic Quality Assurance Board)
BPS	Biro Pusat Statistik (Central Bureau of Statistics)
BSNP	Badan Standardisasi Nasional Pendidikan (Board of National Education Standards)
CPR	Continuous Performance Review
DIKTI	Direktorat Jenderal Pendidikan Tinggi (Directorate General of Higher Education (DGHE))
DIPA	Daftar Isian Pelaksanaan Anggaran (Budget Implementation Document/ budget line item)
DPR	Dewan Perwakilan Rakyat (Legislative Assembly)
ESC	External Stakeholder Collaboration
FM	Financial Management
GAAP	Generally Accepted Accounting Principle
GAL	General Administration and Leadership
GER	Gross Enrollment Rate
HE	Higher Education
HEI	Higher Education Institution
HELM	Higher Education Leadership and Management
HEMIS	Higher Education Management Information System
IKK	Indikator Kinerja Khusus (Specific Indicator)
IKU	Indikator Kinerja Umum (General Indicator)
IPB	Institut Pertanian Bogor (Agricultural University at Bogor)
ITB	Institut Teknologi Bandung
KAP	Kantor Akuntan Publik (Public Accounting Office)
KEMENAG	Kementerian Agama (Ministry of Religious Affairs—also MORA)
KEMKEU	Kementerian Keuangan (Ministry of Finance)
KOPERTIS	Koordinator Perguruan Tinggi Swasta (Coordinator of Private Higher Education)
LAKIP	Laporan Kinerja Instansi Pemerintah (Government Unit Performance Report)
MENKOKESRA	Kementerian Koordinator Kesejahteraan Rakyat (Coordinating Ministry of People's Welfare)
MOEC	Ministry of Education and Culture (formerly MONE)
MONE	Ministry of National Education
MWA	Majelis Wali Amanat (Board of Trustees)
PDPT	Pangkalan Data Perguruan Tinggi (Higher Education Database System)

POLMED	Politeknik Medan
POLNES	Politeknik Samarinda
Prodi	Program Studi (Study Program)
PT	Perguruan Tinggi (Higher Education)
PTN	Perguruan Tinggi Negeri (State Higher Education Institution)
PTS	Perguruan Tinggi Swasta (Private Higher Education Institution)
QA	Quality Assurance
RENSTRA	Rencana Strategis (Strategic Plan at universities or DIKTI)
RIP	Rencana Induk Pengembangan (Master Development Plan)
RPJP	Rencana Pembangunan Jangka Panjang (Long-term Strategic Plan)
RPJM	RPJ Menengah (Medium-term Strategic Plan)
S-2	Strata 2 (Master's Degree)
S-3	Strata 3 (PhD equivalent)
SAP	Standard Auditing Practices
SATKER	Satuan Kerja (Working Unit)
SIMAK	Sistem Informasi Manajemen Keuangan (Financial Management Information System)
SPM	Standar Pelayanan Minimal (Minimum Service Standard (MSS))
SPMI	Sistem Penjamin Mutu Internal (Internal Quality Assurance System)
Swasta	Private
TPA	Tes Potensi Akademik (Academic Competency Test)
UGM	Universitas Gadjah Mata
UI	Universitas Indonesia
UNHAS	Universitas Hasanuddin
UNJ	Universitas Negeri Jakarta
UMM	Universitas Muhammadiyah Malang
UNM	Universitas Negeri Makassar
UNMUL	Universitas Mulawarman
USU	Universitas Sumatera Utara
UUPT	Undang-undang Perguruan Tinggi (Higher Education Law)

EXECUTIVE SUMMARY

This report focuses on the related issues of finance and governance in higher education (HE) around the world, in the Asia region, and specifically in Indonesia. It addresses how various countries around the world and in Asia have responded to the challenge of meeting growing demand for HE with diminished government resources – both by developing financing strategies and decentralizing their governance structures – and how Indonesia compares to other countries in key respects.

The information on financing trends provided in this report was drawn from the author's extensive experience with examining HE financing systems around the world. The discussions of governance were drawn from a literature search that led to review of the documents listed as references at Annex A of the report. The original research component undertaken as part of this report was drawn from a survey of HEIs regarding the degree of autonomy they have for various responsibilities, as described in Annex D and E.

Indonesia has utilized all three types of financing strategies that resource-constrained countries around the world have used in responding to rising demand for HE: increasing tuitions in the public sector; reducing resources per student either by cutting costs or increasing enrollments; and expanding the private sector of HE. In governance matters, Indonesia has followed the pattern of many of its Asian neighbors in enacting legislation that decentralizes financial authority for at least some of its public HEIs.

Three areas of autonomy are relevant for Indonesian HEIs: academic, organizational, and financial. The ongoing autonomy debate in Indonesia might become more tractable if centered less on the general question of decentralization and more on which functions of financial autonomy should be decentralized and what criteria should be used to determine which HEIs are granted greater financial autonomy in those specific areas. There are three models of financial autonomy that may be considered: centralized, decentralized, and mixed systems. Centralized and mixed models are quite common, while decentralized systems are relatively rare.

One way to assess the current situation is to examine ten specific responsibilities that collectively constitute financial autonomy. This would facilitate the development of two concepts that help put the notion of financial autonomy into a broader context:

- developing a profile of responsibilities that summarizes the cumulative degree to which the actual responsibilities diverge from a totally decentralized system in which HEIs have full autonomy over all financial responsibilities; and

- considering the governance structure of different countries is to compare them in terms of who decides key financial issues and who pays to determine whether financial autonomy is proportional and commensurate with the extent to which public HEIs are reliant on private resources rather than public resources.

Application of both concepts to the Indonesian higher education landscape indicates that the three types of public HEIs in Indonesia have the relationships that their autonomy status would suggest should be the case – those with greater reliance on tuition fees as a source of funding have greater autonomy.

Recommendations

It is the premise of this report that the enactment and implementation of HE legislation with a focus on changing the financial autonomy of HEIs represents an opportunity for Indonesia to show how governance reforms can be utilized to increase the efficiency of the HE system while also improving its effectiveness. This would be accomplished through an expansion of access while maintaining or improving quality. Therefore, the report makes the following three recommendations, which would modify the traditional concept of autonomy to be structured instead as a series of financial responsibilities. This would allow the Indonesia HE sector to move away from the more typical ‘either/or’ debate over decentralization versus centralization and toward a more effective definition that recognizes financial autonomy as a series of responsibilities.

First, a multi-function definition of HE Autonomy should be developed in Indonesia. This would reflect the reality that financial autonomy is a series of responsibilities, not a single concept.

Second, criteria should be developed that would define what capacity HEIs must demonstrate in order to be allowed to assume certain specific responsibilities, and move toward greater financial autonomy.

Third, a new governance structure should be established in which specific financial responsibilities would be delegated to HEIs based on their ability to demonstrate financial capabilities.

The absence of international experience in this sort of governance can be viewed as a blessing or curse. If Indonesia decides to embark on this course of action with regard to governance, Indonesia will be able to assert its leadership in key areas of HE governance, but it will have little guidance from the experience of most other countries.

HELM PROGRAM OVERVIEW

The five-year USAID/Indonesia Higher Education Leadership and Management Project (HELM), contract AID-497-C-12-00001, is a Cost Plus Fixed Fee contract awarded to Chemonics International Inc. on November 28, 2011 to be completed on November 30, 2016. Chemonics International Inc. is the prime contractor for HELM and will implement the project with the assistance of its sub-contract consortium partners: JBS International Inc., Aguirre Division, University of Kentucky, and the Indiana University Alliance. HELM works in close collaboration with the Directorate General of Higher Education (DIKTI) and Indonesian Higher Education Institution (HEI) partners and under guidance from USAID.

HELM aims to support and sustain reforms in the Indonesian higher education sector which will result in, as stated by the sub IR “increased management capacity of Indonesian Higher Education Institutions (HEI).” Through collaboration with DIKTI, HELM will target increased capacity in four core management areas:

1. General administration and leadership;
2. Financial management;
3. Quality assurances; and,
4. Collaboration with external stakeholders.

HELM is designed to promote the reform process within the Ministry of Education and Culture (MOEC) as the Higher Education (HE) system. Implementation of the newly developed Strategic Plan for 2010-2014 is underway. A new law governing HE was recently passed. DIKTI has requested both assistance on improving their strategic plan as well as support for improved implementation of the plan at the HEI level while the new law is put into operation. All agree that it is a time of change and opportunity within the HE sector.

HELM is committed to programming that responds to needs identified by DIKTI as well as informing and advancing the reform process at the national level and among partner institutions. HELM goals will be achieved through a three-phase process:

1. The first phase will consist of an intense, collaborative effort to assess the current context across the higher education sector, including challenges and constraints to the implementation of the newly developed strategic plan. Integral to this is responding to needs identified by the DIKTI as well as informing and advancing the successful design of the implementation phase of the project.
2. The implementation phase will be the second phase of HELM; efforts will focus on improved implementation of reform efforts both within DIKTI and within partner HEIs.
3. The final phase is considered the institutionalization phase. Institutionalization will be a focus throughout the program but in the final program years an intensified effort will sustain best practices and improve channels for dissemination of reform efforts.

HELM phase one assessment activities are intended to better identify, define, and focus the program implementation that will form the foundation of the HELM project out-year activities, while simultaneously providing research to DIKTI. As such, HELM will apply

approaches and methodologies deemed as global best practices while remaining mindful of the unique character and the contextual specificity in Indonesia.

HELM will coordinate closely with other donors and implementers working in the higher education (HE) sector, and strive to learn from their experiences to build upon the successes of prior and existing projects. HELM will seek to complement existing work and create synergies with other programs working in the higher education sector. Successes and lessons learned will be shared widely and will remain in the public domain in an effort to disseminate best practices for systemic improvements and to build support for reform within DIKTI and at across the higher education sector as well as across a wider range of stakeholders. Recommendations will link the initial assessment reports to future program implementation activities.

The deliverables for the HELM program, as outlined in the contract, are organized under the following five key components:

- A. Provide analytical support for strategic planning and policy analysis at DIKTI.
- B. Design technical assistance approaches to achieve effective implementation of key reforms across system, coordinating with DIKTI and maximizing opportunities to internalize best practice within HE system.
- C. Provide technical assistance to increase management capacity and improve performance at HEI—and disseminate best practices.
- D. Strengthen graduate level programs in Higher Education Leadership and Management.
- E. Support special initiatives by providing assistance to advance reforms and innovation within management of HEIs.

Much HELM's work during Year 1 is focused under Component A and will provide the analytical foundation to inform implementation in future HELM activities. The assessment described below is one among the group of assessments.

Overview of Component A

The purpose of Component A is to provide analytical support for strategic planning and policy analysis at DIKTI. Based on discussions with USAID, DIKTI, and the Coordinating Ministry of People's Welfare (*MENKOKESRA*) several of the deliverables outlined under Component A were adapted to be more responsive to expressed need and the current context. In particular, under Component A, Deliverable 1(a) was adapted from:

Propose a methodology and conduct an economic assessment of sectors and technical areas that are: most critical to the future economic and social development of the country, and dependent on improved participation from Higher Education Institutions. (to be completed by month 9),

to become:

Design and complete an assessment of the higher education financial policy environment with emphasis on the HE financing systems, financial implementation mechanism, and the regulatory environment within the particular context of autonomy. A methodology will be due

at the end of month 5 (April 2012) and an assessment is to be completed by the end of month 8 (July 2012).

In particular, DIKTI identified the need to better understanding the constraints and opportunities within the fiscal regulatory environment. A wide range of data will be collected to illuminate the current legal and fiscal environment within the context of moving toward a system with more HEI autonomy. Data collected at the HEI institutional level and at the national level will be synthesized and analyzed in an effort to represent a range of different stakeholders and diverse data sets, and to fully understand the fiscal and regulatory context.

The overall approach to development of the assessments will include:

- Close coordination counterparts within DIKTI and other higher education stakeholders including other donors, implementers and beneficiaries.
- Desk reviews of appropriate laws, regulations, available data, earlier studies, and other relevant documents to understand the DIKTI mission, the strategic vision for HE in Indonesia and set forth in the strategic plan, the pending new law, and other factors.
- Presentation and dissemination of findings relevant to DIKTI and HEIs as well as with other HEI stakeholders at the first HELM discussion forum. This discussion forum will contain information and analysis of research to date related to:
 - Fiscal and cultural context for the implementation of particular components of laws governing semi-autonomous higher education institutions (BLU or *Badan Layanan Umum*) and recommendations to improve the system and process.
 - Prioritization of actionable points to inform the design and development of future HELM program activities related to financial management within the greater context of the pending law and the emphasis on movements toward autonomy.

Overview of Component A, Deliverable 1

Provide DIKTI with technical assistance in strategic planning related to system development and sector-wide reform.

There is a disconnect between the financial requirements outlined in the DIKTI Strategic Plan and the implementation of budgetary best practice at the level of the HEIs. This concern regarding financial management is closely linked to the efforts to make universities more autonomous.

Identification and understanding of the constraints within the current financial environment and overall economic factors have been identified as critical factors limiting the successful implementation of the strategic plan. Analysis of the challenges and constraints in increasing the levels of autonomy at the HEIs will be included in this analysis to address DIKTI concerns.

This revised assessment, Deliverable 1(a) has been re-focused on providing support to DIKTI to promote better leadership and management while moving toward more autonomy at the HE level. HELM's technical assistance will operate within the context of promoting increased autonomy and other potential reforms under the context of the recent law for higher education.

Overview of Component A, Deliverable 1 (A)

Deliverable 1 (a): Assessment of the higher education financial policy environment with emphasis on the HE financing systems, financial implementation mechanism, and the regulatory environment within the context of autonomy.

With a keen focus on the higher education financial policy environment, this assessment will provide technical assistance to DIKTI policy staff. One area of focus will be the potential of establishing block grant financial policy which will be contrasted with the line-item budgeting process within the context of increased financial responsibility placed at the institution level. A number of other financial and governance responsibilities will also be examined. Options to improve the efficiencies within these mechanisms within the existing regulatory environment will be considered, as will recommendations to implement these mechanisms more effectively. Specific regulations of concern relate to budgetary restrictions from the Minister of Finance that may not be well aligned with the current effort to move more toward autonomy.

FINANCING STRATEGIES AND GOVERNANCE ISSUES

The HE system of Indonesia now has an annual enrollment of approximately 5 million students. This system has rapidly expanded primarily due to the rapid increase of enrollments in private HEIs, which now account for roughly three-quarters of all HE enrollments. But there has also been significant growth in both public HE enrollments and for the resources required for public HE institutions to operate. Similar to countries around the world, Indonesia now faces the challenge of meeting consistently rising demand for HE with limited public resources.

FINANCING STRATEGIES

For all countries, three basic financing strategies are available to meet the challenge of growing demand and declining public resources: increasing prices for public HEIs to offset the constraints on public funds; reducing resources per student either by achieving greater efficiencies or enrolling fewer students; and encouraging the expansion of the private sector to reduce the strain on taxpayer funds to pay for HE. This section examines how each of these three strategies may have differential effects on the two key goals of expanding access and improving quality.

In considering the relative merits of these three strategies, it is important to recognize an essential tradeoff and dilemma – namely, that it is very difficult to expand access and to improve quality at the same time since the policies that will expand access will often detract from quality, while actions that are likely to improve quality are often achieved by limiting access.

Moreover, the roles of the HEIs and national government are often in conflict with regard to promoting access and protecting quality. Maintaining or improving quality is typically the top priority of institutional officials and faculty who would like to maximize resources per student. By contrast, ensuring or expanding access is typically the primary objective of government officials as they would like to maximize access and to promote efficiency by minimizing resources per student. Thus, the task of meeting rising demand when public resources are stable or declining is complicated by this large difference in traditional roles and responsibilities.

Increasing Tuition Fees. The most frequently used strategy for dealing with limits in public resources in most countries is increasing the revenues generated from tuition fees and other charges. This cost recovery approach can be achieved in one of several ways. One is to increase the level of tuition fees for all current students. Another is changing the mix of students by increasing the number of international students who typically are required to pay higher fees. Still another approach is to establish a parallel fee structure in which domestic students who do not gain entrance on the basis of entrance exam scores may enroll as ‘non-regular’ students and pay fees that are much higher than for the ‘regular’ students; these parallel fees often equal or exceed the full per student costs of education. These parallel fee structures are particularly prevalent in certain regions including Eastern Europe and a number of Asian countries.

Maintaining or improving quality by ensuring adequate levels of resources per student tends to be the primary purpose of any kind of fee increase. Yet higher fees can allow for increased access if they are accompanied by expanded enrollments. If, on the other hand, prices are increased while enrollments are not, the result of higher fees almost always will be more limited access. Higher prices also can deter students with more modest means from enrolling unless accompanied by larger amounts of student financial aid.

Reducing Resources per Student. Another frequently used strategy to address the mismatch between growing demand and limited public resources for HE is to reduce the amount of resources devoted to each student. One way to do this is for HEIs to cut programs and staff, or find more cost effective ways to teach and increase operational efficiency. This route to greater efficiency often includes shrinking the size of the enterprise by capping enrollments so that adequate resources can be provided to the students who do enroll. Another avenue to reduce resources spent on each student takes the opposite tack of increasing enrollments, thereby reducing resources per student. Governments can encourage more enrollments by providing additional student financial aid to stimulate more demand or by placing a floor on the number of students which institutions may enroll, thereby allowing the number of students to increase beyond the levels already funded by government.

Approaches for addressing cutbacks in government funding and improving efficiency can be found in countries throughout the world. HEIs in many countries, states, and provinces deal with cutbacks in government funds by cutting programs and staffs – it is often the first response to reductions in public funds. There are also a number of instances where enrollments are capped to ensure adequate resources per student and to minimize future budgetary exposure from student financial aid being awarded to more students. New Zealand and England are two prominent examples of countries that have capped enrollments not because it would lead to more public support of institutions, but because spending for student loan subsidies would rise substantially.

But there are also many examples of countries which allow HEIs to increase their enrollments beyond government funded levels without providing more government funding for these additional students. Economic theory suggests that these HEIs should expand their enrollments as long as the tuition fees received are equal or greater than the marginal costs attached to these additional students.

These approaches have very different effects on quality and access. Efforts to cut costs and programs to achieve efficiency typically lead to lower quality, while capping enrollments detracts from access but may improve quality as it will lead to more resources being spread over fewer students. On the other hand, providing more student aid or placing a floor on enrollments could increase access but it may well do so at the expense of quality if existing resource levels are spread over a larger number of students.

Whether and how these actions affect quality and access also depends on their implementation. For example, if HEIs retain the fees paid by additional students, the negative effects on quality will be offset partially or fully by the increased resources generated by the additional fees. Similarly, if enrollment expansions are accomplished simply by increasing class size and student/faculty ratios, quality is likely to suffer. But if low teaching loads are increased or programs with low enrollments are targeted for expansion, there could be little adverse impact on quality or it might even be improved.

Expanding the Private Sector. The third strategy for meeting demand in tough times is to allow the private sector of HE to grow. Under this approach, governments decide that they cannot meet demand by funding expansion in the public sector and instead encourage the private sector to grow to accommodate surging demand. This encouragement can take several forms, including loosening the regulatory environment and allowing government-funded student financial aid to be portable to students attending private HEIs. Vouchers or student loans are two examples of this approach.

Asia is perhaps the region that has most adopted the private sector strategy. In South Korea, Japan, and Indonesia, far more than half of all students enroll in private HEIs, and a number of other Asian countries also have large numbers of private sector students. The Middle East and South America are two other examples of regions that have developed large private sectors of higher education.

This private sector emphasis obviously is designed to expand access without correspondingly increasing public resources to meet demand. But it also raises important questions about quality as private sector HEIs often are of lower quality than their more well-funded public counterparts. (The U.S. is an obvious counter-example to this generalization as American private HEIs often are better funded and of higher quality than public HEIs.) Quality becomes an even greater concern when for-profit HEIs are the primary form of private provider as they often focus on attracting low-skilled students who are particularly unprepared to do college level work, but can pay. One means for counteracting this very legitimate concern about quality is to ensure that strong quality assurance systems are in place that will prevent the emergence and continuation of low quality HEIs and programs.

Financing Strategies in Indonesia

A historical review indicates that Indonesia has used each of the three strategies described above in its effort to meeting rising demand:¹

Indonesia has increased fees charged to students enrolling in a wide range of public HEIs in two ways: First, by increasing the tuition fees charged to 'regular' students and second, by instituting a system of parallel fees in which non-regular students are charged tuition fees which nearly equal the full costs of educating students. Chart 1 reflects the revenues collected from both types of tuition fees, indicated as a percentage of educational costs at the three different types of public HEIs in Indonesia. As Chart 1 below illustrates, spending per student varies substantially among the three types of public HEIs.

Chart 1 – Tuition Fee Revenues as a Share of Educational Costs at Different Types of Public HEIs, 2010

Type of HEI	Tuition Fee as % of Educational Costs	Educational Cost per Student (USD)
Autonomous	44%	2,245
Semi-Autonomous	57%	973
Non-Autonomous	29%	1,176
Source: DIKTI, as collected by IMHERE Project, and World Bank (2010) Higher Education Financing in Indonesia		

- Autonomous HEIs also generate significant private income from sources other than student fees; these amount to nearly 40 percent of total income of autonomous HEIs (World Bank 2010, Higher Education Financing in Indonesia).
- Indonesia higher education enrollments have grown significantly over the last decade. The increased HE enrollment exceeds that of the population growth, resulting in a growing enrollment rate. Please refer to Table 1 for details.

Table 1. Increasing of HE Enrollment

Date Age Cohort	2007 Age 19 -24	2008 Age 19 -24	2009 Age 19 -24	2010 Age 19 -23	2011 Age 19 -23
CohortPopulation 2005-2009 figures are projections, 2010 figures from current census)	25,350,900	25,359,000	25,366,600	19,844,485	19,858,146
Total number of HEIs Students	4,375,505	4,501,453	4,657,547	5,229,280	5,381,126
Public HEIs	978,739	965,970	1,011,721	1,030,403	1,063,274
Private HEIs	2,392,417	2,410,276	2,451,451	2,889,471	2,928,890
Public HEIs Non MOEC and MORA	47,253	47,253	66,535	92,971	101,351
Public HEIs for					

¹ These facts on the higher education financing come from the World Bank report "Indonesia: Higher Education Financing." This report provides a broad overview of enrollments, costs and equity aspects of higher education in Indonesia. See World Bank (2010). "Indonesia: Higher Education Financing." Washington DC: World Bank.

Islamic Studies (under MORA)	506,247	556,763	503,439	544,179	576,462
Private HEIs for Religion Studies (under MORA)				27,157	44,476
Open University	450,849	521,281	624,401	645,099	666,673
GER	17.26%	17.75%	18.36%	26.35%	27.10%
Source: DIKTI, Performance Accountability Report					

- Per student (unit) spending on HE also varies largely between public and private HEIs. In 2009, the World Bank estimated average unit spending at a public HEI was about Rp 22 million (US\$2,200) per student, compared with around Rp 12 million (US\$ 1,200) per student in private institutions (World Bank 2010, Higher Education Financing in Indonesia). This difference in spending per student between public and private HEIs is largely a function that private HEIs have fewer resources per student than most public HEIs and typically are of lesser quality as a result. It should not be interpreted as an indicator that private HEIs are more efficient than their public counterparts.

Financial Characteristics of Indonesia and East Asia Countries

A comparative framework allows us to place the performance of the Indonesian HE finance system in the context of other countries in the region. As Chart 2 indicates below, Indonesia's financing approach is similar to that of many of its neighbors. The percentage of GDP spent on higher education in Indonesia (1.2 percent) is less than the OECD average (1.5 percent), similar to the financial commitment to HE in Thailand and Japan but far lower than in Malaysia and South Korea.

Chart 2 – Financial Characteristics of Higher Education in Selected Asian Countries

Country	GDP per Capita (2010) (in USD)	% GDP Spent on Higher Education	% GDP from Public Resources	% GDP from Private Resources	Private Resources as % of Total	Public Spending per Student in Public HEI's (in USD)
Indonesia	2,046	1.2%	0.3%	0.9%	75%	1,280
Malaysia	8,373	2.1%	2.1%	0.0%	0%	8,997
Philippines	2,140	0.4%	0.2%	0.2%	50%	1,661
Thailand	4,608	1.3%	0.9%	0.4%	31%	n/a
Japan	42,831	1.5%	0.5%	1.0%	67%	12,193
S. Korea	20,757	2.6%	1.1%	1.5%	58%	7,068
Sources:	www.indomundi.com	WB.Indonesia p.11; GUNI, 2006 p. 310	WB.Indonesia p.11; OECD, 2011 p.231	WB.Indonesia p.11		WB.Indonesia p.14

Indonesia relies heavily on private resources for 75 percent of the resources utilized for HE. This reliance on private resources is very high by international standards. By contrast, the amount of public funds spent per student in public HE is very low in

Indonesia relative to other Asian countries. This helps to explain continued widespread concerns about the quality of HE in Indonesia.

Higher education participation and attainment rates tend to be lower in Indonesia than in a number of other middle-income and high-income Asian countries. Despite the rapid growth in higher education enrollments in Indonesia over the past two decades, gross enrollment ratios in Indonesia remain less than half the rates in neighboring Asian countries, as Chart 3 below indicates. Despite substantial growth over time in the number of degrees awarded in Indonesia, attainment rates, remains half or less of selected Asian countries.

Chart 3. Comparison of Indonesia and Asian Gross Enrollment Ratios

Country	Upper Secondary GER (2010)	HE GER (2010)	Percent HE enrollment in private HEIs	Percent of HEIs that are Private	HEI Attainment Rate 25-64 year olds (2009)
Indonesia	77%	23%	71%	97%	7%
Malaysia	70%	43%	51%	87%	14%
Philippines	87%	31%	61%	72%	30%
Thailand	77%	46%	10%	47%	13%
Korea	97%	103%	80%	87%	37%
Japan	102%	60%	77%	90%	40%
Data Source	WB Education 2010	WB Education 2010	ADB 2007	ADB 2007	WB Education 2009

Indonesia also relies more on private higher education than most other countries in the region and in the world. Nearly three-quarters of all HE students in Indonesia enroll in private HEIs. The private sector share of enrollments in Indonesian HE is almost as high as in Japan and Korea, and far higher than in most other countries.

GOVERNANCE TRENDS

With regard to financial autonomy, many countries around the world have sought to address financial constraints by reforming their governance structures. The principal thrust around the world has been to decentralize HE systems by giving HEIs more autonomy, often in concert with declines in public funding. These financial decentralization steps include:ⁱ

- Enacting legislation that establishes universities as independent entities
- Creating buffer bodies to carry out some responsibilities previously borne by government
- Shifting quality assurance to agencies external to government
- Establishing performance contracts between HEIs and government agencies
- Setting performance measures as a form of greater accountability

- Reducing regulations governing HEIs
- Giving HEIs more autonomy over certain responsibilities and functions

Governance Trends in Indonesia and East Asia

In a discussion draft for the Asian Development Bank entitled “Higher Education Governance in East Asia”, R. Raza provides an excellent review of governance trends and issues in East Asia. For example, the paper observes:

“the challenge in East Asia is to devise a governance structure that offers the right balance between autonomy and accountability.... Greater institutional autonomy is often critical in stimulating research and innovation.”ⁱⁱ

East Asian countries have seen significant change in the management and governance of their higher education systems in the past two decades. Yet HEIs in most Asian countries still tend to have the least autonomy of any region in the world. The principal vehicle for achieving governance reforms in East Asian countries has been through legislation that sought to decentralize the higher education systems to one extent or another.

Chart 4 – Governance Reforms in Selected Asian Countries

Country	Key Elements of Governance Reform	Current Status of Reforms
Indonesia	Establish universities as separate legal entities	7 public universities have achieved autonomous status
Malaysia	Developed legislative framework and establish buffer body to manage public and private HEIs	Some autonomy in 17 public universities
Philippines	Create agency separate from Ministry to manage higher education sector (1994)	CHED has been implemented
Thailand	Streamline administration under buffer body Commission on Higher Education (1999)	11 of 78 public universities have achieved autonomy (7 since 2006)
Singapore	Allow National University and National Technical University to incorporate under companies act	3 universities have been incorporated
Japan	Transform each university into a national university corporation and reform internal governance of universities	87 of 157 public universities are now designated as national universities
Korea	Full development on university autonomy and reduce regulations governing HEIs	Public HEIs are heavily regulated but private HEIs are deregulated
Source: Raza, Higher Education Governance in East Asia (pp. 8-10)		

As illustrated in Chart 4 above, in terms of governance reforms in East Asia, the “real push for decentralization came in mid to late 1990s, first in South Korea and Malaysia and then in Indonesia and Thailand.” “A second wave of reforms happened in the mid-2000s when

Japan and Singapore extended autonomy to their key HEIs” with a ‘big bang’ approach that covered many public HEIs. In contrast, the Asian countries that began reforms earlier, in mid-1990s, tend to have followed a “gradualist approach.” South Korea, Malaysia, Indonesia, and Thailand have extended autonomy to fewer HEIs or limited autonomy to private HEIs.ⁱⁱⁱ

The current HE legislative debate in Indonesia has now stretched over several years. It has, not surprisingly, focused on possible governance reforms and issues of autonomy within the context of the existing structure of continuing to have public HEIs that are categorized according to their degree of autonomy. The key issues that have slowed or blocked the enactment of the legislation have involved concerns from both the perspective of students and parents on the one hand and institutional officials on the other that greater autonomy will make the HE sector less sustainable in the future.

The principal concern of students and parents has been that giving HEIs greater financial autonomy will lead to higher prices as the assumption is that many HEIs would use the greater autonomy they are given to increase their tuition fees in order to generate greater fee revenues. A principal concern from the perspective of HEI officials is that greater autonomy will lead to increased financial responsibilities for items such as pensions which could then worsen the financial condition of the HEIs. At this writing, although the new HE law has been signed by parliament, these issues have not been resolved and thus continue to represent obstacles to successful enactment or implementation of legislation leading toward increased autonomy.

The Role of Quality Assurance

A strong quality assurance system is critical to an effective HE system. This is especially true when a large share of HEIs and HE enrollments are in private HEIs or those that are largely autonomous of government control. Chart 5 summarizes key features of quality assurance in selected Asian countries. The chart suggests that Indonesia has a fairly strong quality assurance system in place relative to other countries in the region in that the quality assurance body is independent, the review process is mandatory, and the disclosure is complete. Indonesia should seek to build on this structure in trying to ensure that the quality of the HE sector and of the HEIs is maintained or improved in the future.

Chart 5 - Quality Assurance in Selected Asian Countries

Country	Type of Body	QA Type	QA Funded by:	Requirement?	Disclosure
Indonesia	Independent	Accreditation	Government	Mandatory	Complete
Malaysia	Independent	Accreditation	Government	Mandatory	Complete
Philippines	Independent	Accreditation	HEIs	Voluntary	Limited
Thailand	Independent	Audit	Government	Mandatory	Complete
Singapore	Government	Accreditation	Government	Mandatory	Complete
Japan	Independent & Semi-Autonomous	Accreditation, Audit & Assessment	Government & HEIs	Mandatory	Complete
Korea	Independent	Accreditation, Audit & Assessment	Government & HEIs	Mandatory	Complete
Source: Raza, Higher Education Governance in East Asia pp. 18-20					

A MULTIFUNCTIONAL DEFINITION OF AUTONOMY

This Assessment report focuses on the issue of financial autonomy-- the set of issues that define financial responsibilities such as how government funds are allocated, who has the authority to set fees and who retains them, and who owns the buildings and other assets of the HEIs. As explained earlier, this report does not address the full range of governance and autonomy issues, but only on financial matters therefore excluding several other kinds of autonomy, two of which are discussed briefly below, prior to the main discussion of financial autonomy and the responsibilities therein.^{iv}

Academic Autonomy

With respect to academic autonomy – the ability of faculty and officials of HEIs to decide on academic matters such as curriculum and grading – Indonesia ranks relatively high among countries in the degree to which academic matters are decided by the faculty and HEI. It appears that the Indonesian government has relatively little say in what is taught and other academic matters and the system is largely decentralized when compared to many other countries where government plays a much larger role in these matters. From the viewpoint of the author of this report, that degree of academic autonomy is good and should not be changed as a result of the broader debate over autonomy and governance.

Organizational Autonomy

Organizational autonomy, on the other hand, is very low in Indonesia. The HE system is highly centralized, much more so than in many other countries. The rectors of most public HEIs in Indonesia report directly to the government. With the exception of several BHMNs and possibly some BLUs in the future, boards of trustees are not available to serve as a buffer between the government and the institutional administrators and faculty. Nor are there systems of HEIs, for example, a system of BLUs all reporting to one governing board, as there are in some other countries such as the U.S. This general lack of governing boards (or similar systems) at most public HEIs would not be viewed as good practice by most governance experts; it is reasonable to say that consideration of this aspect of governance and autonomy as part of the reform process would be a good idea.

Financial Autonomy

As the preceding section indicated, one of the principal ways in which countries around the world have responded to cutbacks in government funding has been to decentralize their higher education systems by giving some or all of their public HEIs more financial autonomy. A number of East Asian countries, including Indonesia, have been part of this worldwide trend in that over the past two decades, each of these countries has enacted legislation which gave greater financial authority to at least some of its public HEIs.

One of the difficulties with debates over governance and decentralization in many countries is that ‘financial autonomy’ tends to be treated as a single idea or concept. The discussion typically focuses on the general question of whether to decentralize in order to give public HEIs more financial autonomy to deal with reduced levels of government support for higher education. The theory here is that by granting public HEIs greater financial autonomy, they will be more capable of dealing with less public funding.

But the reality is that financial autonomy consists of a number of responsibilities including how government funds are allocated, how tuition fees are set, whether these fees are retained by HEIs, and who owns the assets. And it is surely the case that some of these responsibilities will be more critical than others in allowing public HEIs to deal with the adversity that comes with reduced public funding. Yet there has been relatively little discussion in most countries of which financial responsibilities are most important in providing the flexibility necessary to meet the essential challenge on doing more with less public resources.

To recognize the relative importance of HEIs having different kinds of financial responsibilities, a principal theme of this report is that it proposes that the ongoing autonomy debate in Indonesia center less on the general question of decentralization and more on which functions should be decentralized and what criteria should be used to determine which HEIs are granted greater financial autonomy. To do this, this section describes three models of financial autonomy; lists ten specific responsibilities that collectively constitute financial autonomy; and develops two concepts that are intended to help put the concept of financial autonomy into a broader context.

THREE MODELS OF FINANCIAL AUTONOMY

In addressing issues and trends of governance, it is useful to consider the following three models of financial autonomy:

Centralized

In a highly centralized model, government officials make all of the key financial decisions including how much HEIs may charge students, how many students they may enroll, and how much they can pay their faculty and staff. Also, public funds are allocated to HEIs on a line-item basis, government sets tuition fee levels and collects those fees, faculty and staff are government civil servants, HEIs may not borrow, and government owns all the assets of HEIs.

Decentralized

In a fully decentralized model, public HEIs operate essentially like private HEIs in that they have the full authority to determine how much they charge, how many students they enroll and negotiate with faculty and staff on pay and other terms and conditions of employment. In a decentralized system, HEIs also have authority to borrow from banks or in the market, own their assets and are responsible for a wide range of financial items including pensions of their employees.

Mixed

In a mixed model of autonomy, financial responsibilities are neither fully decentralized nor solely reside with the government. In such systems, HEIs may receive public funds as a block grant with full autonomy to spend yet have little or no authority to set tuition fees. They may be allowed to borrow but not sell their assets. Or the reverse conditions may be the case. HEIs may also have a mix of responsibilities to deal with faculty and staff ranging from all employees being civil servants to HEIs having authority to negotiate the terms and conditions of employment.

There are many examples of countries in which the HE system is highly centralized with government assuming most if not all of the financial responsibilities. Many countries also have mixed models of autonomy in higher education. By contrast, there are relatively few examples of countries in which the system is totally or largely decentralized as governments in most countries are reluctant to cede the full range of responsibilities to public HEIs.

Ten Financial Responsibilities

In this context, a useful way to consider financial autonomy is to recognize that it may be best thought of as a series of responsibilities. In this report, we have identified ten responsibilities that collectively help to define the degree of financial autonomy that public HEIs have (also displayed in Chart 6 after this list). These responsibilities are:

1. Form of Government Allocation?

One of the key aspects of autonomy for public HEIs is whether public HEIs receive funds in the form of a block grant or as line-items. Block grants mean that an HEI has more autonomy since it has more freedom in how it spends the public funds it is allocated.

2. Type of Audit?

Whether HEIs are free to select who audits their records or whether they must use a government-approved auditor or be audited by a government agency is another indicator of how much financial autonomy an HEI has.

3. Treatment of Surplus Funds?

Another indicator of autonomy is whether the HEIs are allowed to carry over surplus funds at the end of the fiscal year into the next fiscal year. HEIs that are allowed to keep their surpluses have greater autonomy than HEIs that must return their surpluses to the central government at year's end.

4. Who Sets Tuition Fee Levels?

The most visible indicator of autonomy is the degree to which HEIs have the authority to set their tuition fee levels. A number of countries particularly in Eastern Europe and Asia have developed a mixed model in which the government sets the fees charged to 'regular' students but parallel fees for non-regular students are set by the HEIs.

5. Do HEIs Retain Tuition Fees?

While setting tuition fees is the most visible aspect of autonomy, in many regards whether the HEI retains the fees it charges is a much more important measure of financial autonomy. If HEIs are allowed to set their fee levels but then all fee revenues are received by the government, then the fee setting authority is not very important. Conversely, if HEIs retain all tuition fees that are charged to their students, this provides HEIs with a high degree of autonomy regardless of who set fee levels.

6. How is Private Income Treated?

Another key question is whether HEIs retain private revenues other than tuition fees. One way to assess this is whether there is a 'clawback' in which some or all of the private revenues raised by an HEI result in a reduction in how much public funds the HEI receives. In a fully autonomous system, there would be no reduction in public funding – this encourages HEIs to be aggressive in private fund-raising. An opposing approach is one in which private funds raised reduce public funding on a one-to-one basis. Many countries allow their public HEIs to retain a portion of the private funds they raise—a middle ground approach.

7. Does Government Limit Enrollments?

Another key indicator of autonomy is whether governments limit how many students public HEIs may enroll. If government caps enrollments at target levels that reflect public funding,

then HEIs have little capability to react to market forces. Conversely, if public HEIs are given discretion in how many students they may enroll and retain the fees they charge, they have more power to decide whether enrolling more students will generate sufficient revenues to justify expansion.

8. Who Sets Staff Salaries and Other Terms of Employment?

Many officials in public HEIs would say that the ability to negotiate with faculty and staff is the most important aspect of autonomy. They bristle if and when they have no control over how much employees are paid yet must live within public budgets that do not match the reality of pay scales and other commitments such as pensions.

9. Are HEIs Allowed to Borrow?

In many countries, public HEIs are allowed to borrow which gives them much greater flexibility in dealing with the inevitable variability in government funding. As a result, allowing public HEIs to borrow from banks and/or in the markets can be a key component in giving public HEIs the flexibility they need to deal with fluctuations in public funding. Giving HEIs the ability to borrow often also represents an effective alternative to government-funded capital budgets.

10. Do HEIs Own Their Assets and Can They Sell Them?

Another way in which autonomy can be measured is whether HEIs own the buildings and the other assets that comprise their campus and whether they can sell these assets. The typical case seems to be that governments own the assets of HEIs and as a result the HEIs cannot sell those assets. But in those countries where HEIs do own their assets and can sell them, that constitutes an important form of autonomy.

Chart 6 shows how these ten responsibilities that define financial autonomy relate to the three models of financial autonomy described previously. As would be expected, in the highly centralized model, very few if any of the ten financial responsibilities are assigned to the HEIs. At the other end of the spectrum, in a decentralized model HEIs are responsible for all or most of the ten responsibilities and government plays a minor role in mapping the path of the HEI. In the more frequent mixed model, governments assume some of the responsibilities while HEIs have the primary responsibility in other areas. It is important to note that there are a number of responsibilities in which there is a middle way that is not either fully centralized or decentralized.

Chart 6 – Financial Responsibilities within Different Governance Models

Type of Responsibility	Type of Governance Model		
	Centralized	Mixed	Decentralized
Form of Government Allocation?	Strictly Line-Item	Line-Item with some flexibility	Full Block Grant
Type of Audit?	Government officials conduct audits	Private auditors work within government rules	Private audits
Treatment of Surplus Funds	All Returned to Government	Some surplus retained by HEIs	Any surplus retained by HEIs
Who Sets Tuition Fee Levels?	Government sets fee levels for all students	Government sets ranges for fee levels	HEIs set tuition fee levels without restriction
Do HEIs Retain Tuition Fees?	Government collects all tuition fees & then reallocates them	Government collects some fees and HEIs retain others	HEIs retain all tuition fees
How is Private Income Treated?	Government fully deducts for any private funds HEIs raise	Public funds are partially reduced for the private funds HEIs raise	Public funds are not reduced in light of private funds raised
Does Government Limit Enrollments?	Government sets enrollment limits for all fields of study	Government caps enrollments in some fields and not others	HEIs are free to decide how many students to enroll in all fields
Who Sets Staff Salaries and Other Terms of Employment?	HEI employees are civil servants	HEIs have some flexibility in negotiating with staff	HEIs have full autonomy to negotiate terms and conditions
Are HEIs Allowed to Borrow?	HEIs are not allowed to borrow	HEIs may borrow in some cases with government permission	HEIs have full authority to borrow
Do HEIs Own Their Own Assets and Can They Sell Them?	Assets are government owned and HEIs may not sell them	HEIs own their assets but can only sell them with permission	HEIs fully own their assets and are allowed to sell them

How Financial Responsibilities are Currently Delegated in Indonesian Higher Education

To assess the extent to which the ten financial responsibilities are delegated to HEIs in Indonesia, the HELM project developed a survey instrument designed to gauge how financial responsibilities are currently delegated. The survey was distributed to officials at all public HEIs and responses were received from 54 HEIs (62 percent response rate). A copy of the survey with a brief summary is attached as Annex D and E.

The descriptions of the situation in Indonesia provided below reflect both the results of the survey and the discussion with HEI officials that occurred at the roundtable held on June 25, 2012. An important caveat emerging from this examination, though, is that there is much confusion over which financial responsibilities are borne by the HEIs and which are not. Chart 7 reflects our best effort to characterize which responsibilities are delegated to different types of HEIs and to what degree. An important aspect of any follow-up to this report will be to examine whether these characterizations are accurate.

Chart 7 – Financial Responsibilities in Indonesian HEIs

Type of Responsibility	Type of HEI		
	State-Owned	BLUs (Semi-Autonomous)	BHMNs (Autonomous)
Form of Government Allocation?	Line-Item	Line-Item	Limited Block Grant
Type of Audit?	Government auditor	Government-selected private auditor	Government-selected private auditor
Treatment of Surplus Funds	Returned to Government	Some retained by HEIs	Some retained by HEIs
Who Sets Tuition Fee Levels?	Government sets tuition fee levels	HEIs have some flexibility in setting tuition fees	HEIs set fees with some government restrictions
Do HEIs Retain Tuition Fees?	No, for regular students but yes for non-regular students	Yes, for both regular and non-regular students	Yes, for both regular and non-regular students
How Is Private Income Received by HEIs Treated?	Are not allowed to retain private income	Can retain private income to fund according to plan	Have total discretion in use of private income
Does Government Limit Enrollments?	Enrollments capped for all students	Enrollments capped for all students	No limits on either regular or non-regular students
Who Sets Staff Salaries and Other Terms of Employment?	Employees are civil servants	HEIs have some flexibility in staff matters	HEIs have autonomy to negotiate with faculty/staff
Are HEIs Allowed to Borrow?	HEIs not allowed to borrow	HEIs may borrow with government permission	HEIs do not require permission to borrow
Do HEIs Own Their Assets and Can They Sell Them?	Government owns all assets and HEIs may not sell them	Government owns all assets and HEIs may not sell them	HEIs own privately-acquired assets but may not sell them
Source: HELM Autonomous Survey, May 2012			

With these caveats in mind, as Chart 7 indicates, the survey and the roundtable discussion yielded a number of interesting results including:

- As would be expected, the delegation of responsibilities varies considerably and consistently in Indonesia depending on which of the three types of public HEIs are being evaluated. State-owned HEIs have far less autonomy than either the BLUs or BHMNs. Similarly, the BLUs assume less financial responsibilities than the more autonomous BHMNs.

- The conventional state-owned public HEIs operate within a very highly centralized environment where virtually no financial responsibilities are delegated. According to the survey and roundtable discussion, the only financial responsibility that the state-owned HEIs hold is that they are able to retain the tuition fees paid by non-regular students.

- The semi-autonomous BLUs have more of a mix of financial responsibility. In some regards, the autonomy of BLUs is restricted in that they receive public funds on a line-item basis, their assets are fully owned by the government and they may not sell them, according to the survey results. But in many other respects, the BLUs do have some degree of autonomy. They may retain at least some of their year-end surplus, they have limited authority to set tuition fees, and they retain most of those fees. The BLUs also retain most of the private revenues they raised in accordance with their

government-approved plans, have some room to negotiate with faculty and staff, and can borrow in limited instances in government-prescribed ways.

The BHMNs have a much greater degree of financial autonomy as they have at least some control over a number of the ten responsibilities, although they still face certain restrictions such as being subject to some line-item budgets, the government sets some limits on how much they can charge, and they own their assets but may not sell them. But in a number of other ways, the BHMNs have a great deal of latitude in carrying out financial matters, including: setting tuition fees and retaining them both for regular students and for those paying parallel fees, deciding how many students to enroll, negotiating with faculty and staff on the terms and conditions of employment, and the ability to borrow. When compared to public HEIs in most countries, the BHMNs have a relatively high degree of financial autonomy.

How Does Autonomy in Indonesia Compare to Selected Asian Countries?

An important aspect of this discussion of autonomy is to compare the degree of financial autonomy in Indonesia to other countries. To that end, Chart 8 compares the governance structures for the most autonomous of public HEIs in selected Asian countries on a number of the key financial responsibilities to the responsibilities granted BHMNs in Indonesia. With respect to these comparisons, the BHMNs:

- Have more limited authority to negotiate with faculty and staff than the most autonomous HEIs in a number of Asian countries including Singapore, Thailand, and Japan, and more similar to state universities in the Philippines;
- Have as much authority or more than autonomous HEIs in other Asian countries to determine enrollment levels;
- Have similar authority to set tuition fees as autonomous HEIs in other Asian countries and are similar to HEIs in Japan and Thailand in their ownership of assets (although BHMNs cannot sell their assets);
- Have more authority to borrow than HEIs in other Asian countries with the exception of Japan where the National Universities have similar capacity to borrow;
- Have less autonomy to spend public funds than HEIs in a number of Asian countries where the top public HEIs receive block grants as their form of government allocations.

Based on the previous analysis of responsibilities of the different types of public HEIs in Indonesia, it seems fair to assume that the state-owned HEIs and BLUs have significantly less autonomy than the most autonomous HEIs in other Asian countries. But it is difficult to know how the state-owned HEIs and BLUs compare to less autonomous HEIs in other countries because data on autonomy are not available for less autonomous types of HEIs in these other Asian countries. Chart 8 presents the data that is available, with notes about the type of HEI described in the first column.

Chart 8 – Degree of Financial Autonomy in Selected Asian Countries

Country & Type of HEI	Function					
	HEIs Decide Terms of Employment?	HEIs Decide on Student Numbers?	Public HEI autonomy to set fees?	Do Public HEIs Own Their Assets?	Can Public HEIs Borrow?	Type of Funding Allocation
Indonesia (autonomous)	Limited Authority	Full Authority	Full Authority	Full Ownership	Yes	Partial Block Grant
Malaysia (Public)	Some Authority	Limited Authority	Limited Authority	No Ownership	No	Full Block Grant
Philippines (State)	Limited Authority	Full Authority	Full Authority	No Ownership	No	Partial Block Grant
Thailand (autonomous)	Full Authority	Full Authority	Full Authority	Full Ownership	No	Full Block Grant
Singapore (3 national HEIs)	Full Authority	Partial Authority	Full Authority	No Ownership	No	Full Block Grant
Japan (National)	Full Authority	Full Authority	Some Authority	Full Ownership	Yes	Full Block Grant
Korea (National)	Some Authority	No autonomy	Full Authority	No Ownership	No	Line Item
Sources: Raza, p.11; ADB, Higher Education in Asia, p.25						

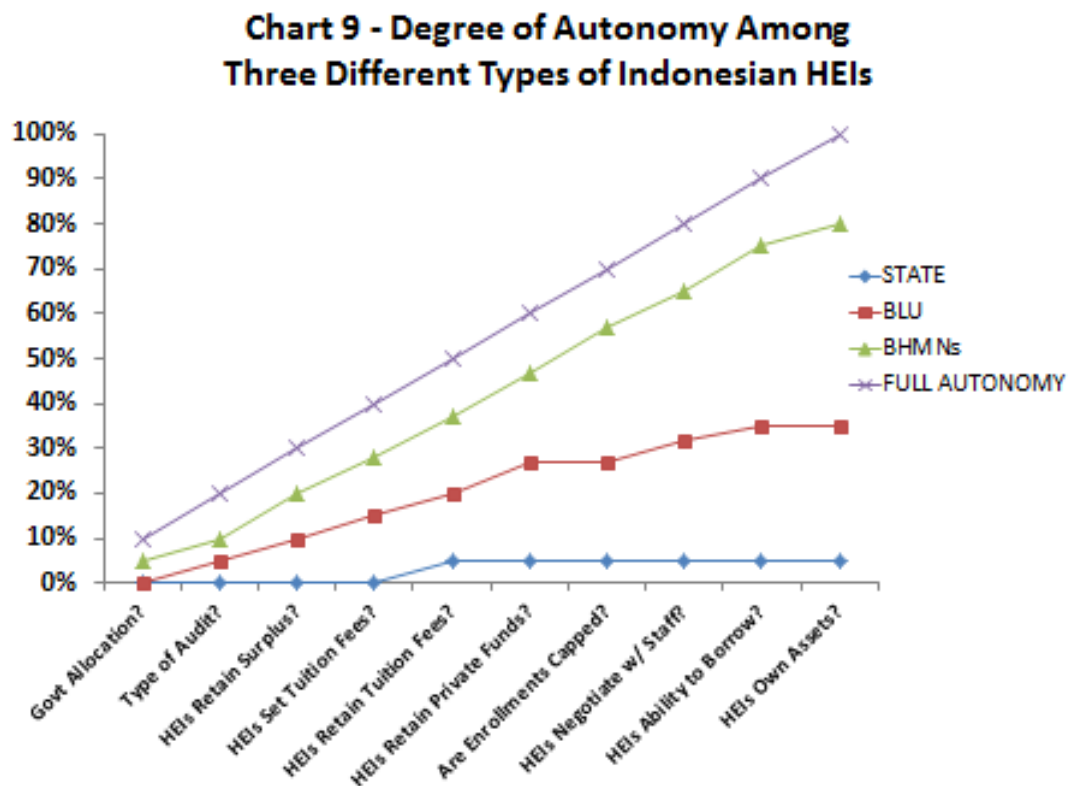
TWO CONCEPTS OF MEASURING THE DEGREE OF AUTONOMY

The preceding discussion of the delegation of various financial responsibilities raises the question of how these different models might be quantified or described in a systematic manner that would allow both for comparisons among HEIs within a country as well as variations in responsibilities among HEIs in different countries. Below two such concepts of autonomy are described: the Profile of Responsibilities and the Who Decides and Who Pays.

Concept One: Profile of Responsibilities

One way to summarize the results of Chart 7 is to develop a profile of responsibilities, as is indicated in Chart 9. This profile is the cumulative degree to which the actual responsibilities diverge from a totally decentralized system in which HEIs have full autonomy over all financial responsibilities. In Chart 9, each responsibility is arbitrarily assigned a weight of 10 percent. The 45 degree line represents a situation in which all financial responsibilities are fully assumed by the public HEIs. It also could be interpreted to be the responsibility profile of a private HEI.

Chart 9 indicates the extent to which the three types of public HEIs in Indonesia diverge from the fully decentralized private model of autonomy. State-owned HEIs have only 5 percent cumulative autonomy in this calculation whereas BLUs have a 30 percent profile of autonomy. BHMNs, by contrast, have a cumulative autonomy of 80 percent under this methodology.



Concept Two: Who Decide and Who Pays?

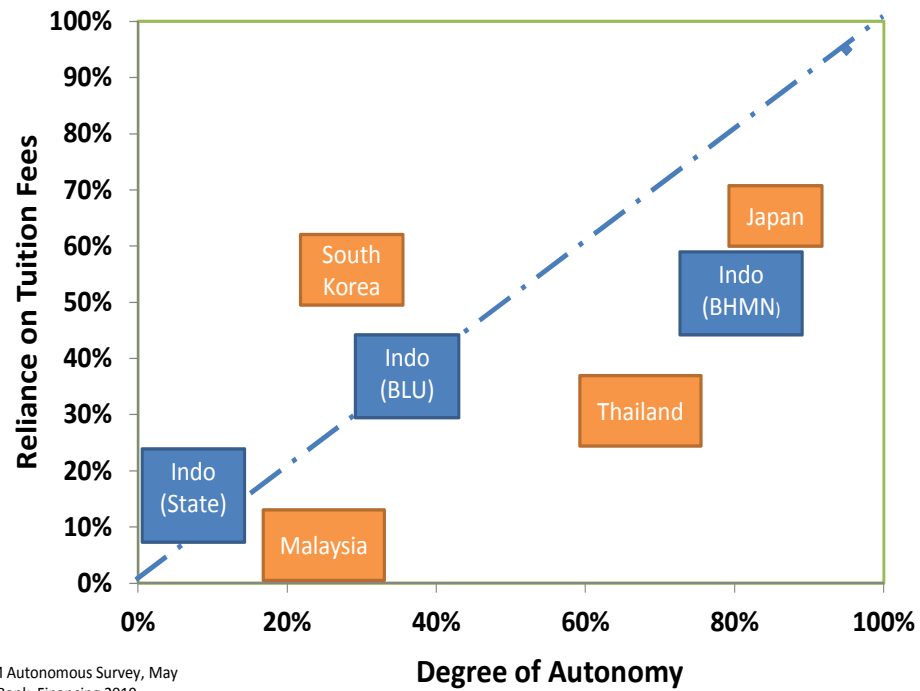
Another way to consider the governance structure of different countries is to compare them in terms of who decides key financial issues and who pays. The theory here is that financial autonomy should be proportional and commensurate with the extent to which public HEIs are reliant on private resources rather than public resources. The premise would be that autonomy should be greater for those public HEIs which rely more on tuition fee revenues and other private sources of income than those HEIs which are more dependent on public funding.

Chart 10 shows this relationship for a select group of Asian countries and for the three types of public HEIs in Indonesia. Estimates for the Indonesian public HEIs is based on the financial data presented in Section 1 of this report and the autonomy profile presented earlier in this paper. The data for the other Asian countries is drawn from autonomy estimates derived from the data presented in Chart 8 and data on reliance on private sources drawn from the World Bank and OECD.

Several interesting relationships are indicated in looking at the relationship between who decides and who pays as presented in Chart 10:

- The three types of public HEIs in Indonesia have the relationships that their autonomy status would suggest should be the case – those with greater reliance on tuition fees as a source of funding have greater autonomy. The BLUs seem to be the HEIs best positioned as their level of autonomy more nearly matches their reliance on fees.
- Several of the Asian countries studies seem to have systems in which the relationship between who pays and who decides seems well balanced. In Malaysia, for example, the government provides the large bulk of funding for its public HEIs and those HEIs appear to have little financial autonomy. In Japan, a high degree of reliance on private fees as a source on funding is matched by a high degree of autonomy.
- In several other Asian countries, however, there appears to be a mismatch between who pays and who decides. In South Korea, public HEIs have very little financial autonomy despite relying heavily on private funding. In Thailand, public HEIs seem to have more autonomy than their reliance on tuition fees and other private funds would seem to merit.

**Chart 10 - Who Pays? and Who Decides?
in Selected Asian Countries**



Source: HELM Autonomous Survey, May 2012; World Bank, Financing 2010

CONCLUSIONS AND RECOMMENDATIONS

As this report has indicated, HEIs in countries around the world have sought to meet rising demand with limited public resources by adopting a variety of financing strategies and changing their governance structures in some fundamental ways. Financing strategies worldwide have included increasing prices, cutting costs, increasing enrollments at public HEIs, and expanding the private sector of HE. The primary thrust of governance reforms around the world has been for countries to decentralize their higher education systems by giving their HEIs more autonomy in financial and other matters.

In many ways, developments in higher education in Indonesia have mirrored these trends in the rest of the world. In finance, Indonesia has employed each of the three strategies common to many other countries around the world and in Asia. Indonesia has increased its tuition fees at public HEIs, expanded enrollments in public HEIs, and greatly expanded the private sector of HE to the point that private HEIs now enroll a very large majority of HE students in Indonesia.

Regarding governance issues, Indonesia has been, like many of its Asian neighbors, enacting legislation in recent decades that has increased autonomy for at least some of its public HEIs. But in one important respect of governance, Indonesia is somewhat unique -- its public HEIs are categorized by the degree of autonomy they exercise. Indonesia appears to be one of the few countries in the world that categorizes its public HEIs by the degree of autonomy they have. The recent legislative debate over HE in Indonesia continues this tradition by focusing on governance issues as they relate to the three types of public HEIs.

But the current legislative debate in Indonesia which has stretched over several years has foundered on the issue whether specific responsibilities should be granted to HEIs. The key issues that have slowed the successful implementation of the legislation or moved it into the court system have involved concerns from both the perspective of students and parents, on the one hand, and institutional officials on the other that greater autonomy will make the HE sector less sustainable in the future.

The principal concern of students and parents has been that more financial autonomy will lead to higher prices based on the assumption that many HEIs would use the greater autonomy they are given to increase their tuition fees in order to generate greater fee revenues. A principle concern from the perspective of HEI officials is that greater autonomy will lead to increased financial responsibilities for items such as pensions which could then materially worsen the financial condition of the HEIs. At this writing, these issues have not been suitably resolved and thus continue to represent obstacles to successful enactment or implementation of the newly signed legislation.

It is the premise of this report that the enactment and implementation of higher education legislation with a focus on changing financial autonomy represents an opportunity for Indonesia to show how governance reforms can be utilized to increase the efficiency of the HE system while also improving its effectiveness. This would be accomplished through an expansion of access while maintaining or improving quality.

To do this, the following three recommendations suggest that the traditional concept of autonomy be modified to be structured instead as a series of financial responsibilities. This would allow Indonesia HE to move away from the more typical ‘either/or’ debate over decentralization versus centralization. In addition, this report suggests that in the future each HEI be assigned these financial responsibilities based on criteria that assess their capacity to carry out these responsibilities, as described in the Report for HELM Deliverable 2.

First, a multi-function definition of HE Autonomy should be developed in Indonesia. This would reflect the reality that financial autonomy is more a series of responsibilities than a single concept.

Second, criteria should be developed that would define what capacity HEIs must demonstrate in order to be allowed to assume certain specific responsibilities.

Third, a new governance structure should be established in which specific financial responsibilities would be delegated to HEIs based on their ability to demonstrate financial capabilities.

A MULTIFUNCTION DEFINITION OF AUTONOMY

A fundamental problem with the current legislative debate in Indonesia is that different stakeholders assume different things when it comes to what would be entailed in giving public HEIs more or less autonomy. This confusion arises in part because governance debates often are at odds with the reality that autonomy is a series of responsibilities that sum to an overall concept of autonomy.

This report recommends that future debates over financial autonomy in Indonesia be broken down into specific responsibilities and that the focus of the debate should be on which, if any, of these responsibilities should be granted to individual public HEIs or groups of public HEIs. Ten such responsibilities have been identified, and suggesting that a debate over autonomy in the future might begin with this list of ten responsibilities and then be modified based on a series of discussions among stakeholders.

If the Government of Indonesia comes to a consensus that HEIs should move toward greater financial autonomy, then DIKTI should hold stakeholder discussions would be critical to successful adoption of this recommendation. HELM might be well positioned to help facilitate these discussions, should DIKTI decide to do move in this direction. This series of discussions should be initiated by the government and include HEI officials as well as representatives of faculty, students, and other stakeholder groups. These groups should come together to explore the different components of autonomy and then try to come to some consensus about which responsibilities can suitably be shifted to HEIs and the circumstances under which this delegation of responsibilities might occur. It would also be important for different groups of stakeholders to assess the relative importance of shifting authority for the different responsibilities. For example, it seems reasonable to assume that there would be greater willingness to have public HEIs to retain the tuition fees they charge than to set the level of those fees.

It would also be important for stakeholders at these discussions to consider the relationships between certain financial responsibilities. For example, the authority to set tuition fees and to determine enrollment levels should be considered together. A good case can be made that these responsibilities should be split between government and HEI officials and that neither

government nor HEI officials should have responsibility for both price and volume because either case would have adverse impacts on quality, access, or both.

CRITERIA TO DEFINE CAPACITY NEEDED TO ASSUME RESPONSIBILITIES

The first recommendation above argues for the adoption of an autonomy structure for HE that relies on a multifunctional system of responsibilities. The successful adoption of a system as described above requires the use of objective criteria by which to judge whether specific HEIs can reasonably assume some or all of these responsibilities. Without such a set of criteria, the delegation of responsibilities would likely turn into a political contest in which the HEIs would make their case based on a set of subjective arguments.

The report of Deliverable 2 of the HELM project includes discussion and recommendations on the development of such a set of criteria.

SPECIFIC RESPONSIBILITIES DELEGATED BASED ON DEMONSTRATED CAPABILITIES

The first recommendation of this report calls for the development of a structure that recognizes autonomy as a series of financial responsibilities. The second recommendation of this report calls for the development of objective criteria which would measure the capacity of HEIs to assume greater financial responsibility in a variety of ways. This final recommendation is designed to integrate the results of the first two recommendations.

Specifically, a matrix of autonomy should be developed in which responsibilities are listed on the vertical dimension and criteria are listed on the horizontal dimension. In the cells of the matrix, the necessary criteria would be indicated for each responsibility. For example, in order to qualify for a private audit, HEIs would have to demonstrate that they have in place an effective financial management reporting system. Good financial management systems would also be a prerequisite for moving away from a line-item budget and towards a block grant form of allocation. Allowing HEIs to borrow would require a strong financial ranking that indicates a capacity of the HEI to repay funds borrowed. A great deal of attention would have to be paid to decisions regarding key measures of autonomy such as who bears the responsibility for setting tuition fees and enrollment levels and whether government or HEIs are responsible for negotiating the terms and conditions of employment for faculty and staff and what necessary criteria might be needed to define those responsibilities.

For each of these three recommendations, there is the question of whether Indonesia could draw on the experience of other countries either in East Asia or around the world in implementing these three recommendations. The reality, though, is that there is not much international experience in this regard. When it comes to governance and issues of autonomy, most of the world is still centered on the general question of decentralization and the types of mechanisms outlined in this report.

The absence of international experience in this regard can be viewed as a blessing or curse. If Indonesia decides to embark on this course of action with regard to governance, Indonesia will be able to assert its leadership in key areas of HE governance, but it will have little guidance from the experience of most other countries.

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Annex B: List of People Consulted

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Annex C: List of Round Table Discussion Forum Participants

1	Adijaya Yusuf	HELM	29	Pamela Marcucci	HELM
2	Eko Cahyono	HELM	30	Dicky Wisnu	UMM
3	Mizan Sya'roni	MORA	31	Abdul Gafur	Mulawarman University
4	Aritta Gracia	Strategic Asia	32	Nelly	BINUS University
5	Kay Ikranegara	HELM	33	Cecilia Sun	USAID
6	Lorna Power	Prioritas	34	Remy Rohadian	USAID
7	Wawan Kustiawan	Mulawarman	35	Abdul Rahman	HELM
8	M Nurul M	Kemenkeu	36	Lellah Rahim	Hasanuddin University
9	Michael Reed	University of Kentucky	37	M. Syahrudin	Poltek Medan
10	Prof Nizam	DPT DIKTI	38	Abdul Rahman D	Poltek Medan
11	Arthur Hauptman	HELM	39	Susan Carvalho	University of Kentucky
12	Alexander Ronaud	BINUS University	40	Sarah Tisch	Chemonics
13	Dadang S	Dikti	41	A. Wardihan Sinrang	Hasanuddin University
14	Catur A Widodo	Kemenkeu	42	L Dolan	USAID
15	Andi Purnawarman	Mulawarman University	43	Feiny Sentosa	Prioritas
16	Akira Moretto	Strategic Asia	44	Sutarum Wiryo	ADB
17	Aparna Bansal	Strategic Asia	45	Kristen Potter	USAID / HELM
18	Satish Mishra	Strategic Asia	46	Keith Hargreaves	Strategic Asia
19	Yenny wijaya	Strategic Asia	47	M Iskandar	USAID / HELM
20	Margaret Sutton	Indiana University	48	Didi Achjari	UGM
21	Didi Susilo Budiarto	Politeknik Samarinda	49	Dede Suryanto	UI
22	Bagyo Y.M	UI	50	Sarjono	HELM
23	Fauzan	UMM	51	Dian Paramita	HELM
24	Suparto	UMM	52	A. Ihsan	UNM
25	Armansyah Ginting	USU	53	Elin Driana	HE Expert
26	Aulia Ishak	USU	54	Fitri Hayati	UI
27	Azhar Ahmad	USU	55	Ari Wijanarko	Strategic Asia
28	SiwageDharmaNegara	World Bank			

Annex D: Data Collection Instrument

Autonomy Survey for Higher Education Institutions

Measures of Financial Autonomy of Public Institutions											
0	1	2	3	4	5	6	7	8	9	10	
1. In what form are government budget allocations provided?											
Line Item											Block Grant
2. Are public funds distributed by government agencies, systems, or buffer bodies?											
Government					System						Buffer body
3. Are there audits of institutional spending?											
Govt audits					Private audits						No required audits
4. Do institutions get to keep unspent (surplus) government funds?											
No											Yes
4. Do Institutions have autonomy to set their tuition fees?											
Government set fee levels					Partial limits						No restriction
5. Do institutions retain the tuition fees they charge?											
None											All
6. Do government or funding bodies limit how many students an institution may enroll?											
Enrollments capped											No limit
7. Do institutional officials negotiate staff salaries and other terms of employment?											
No authority					some flexibility						Full authority
8. Can institutions borrow from banks and in the financial markets?											
No					with government permission						No permission required
9. Do institutions own their buildings and other assets?											
Totally govt-owned					Mixed ownership						Fully inst-owned
10. Can institutions sell their buildings or other assets?											
No					With government permission						No permission required

ANNEX E: SUMMARY OF THE AUTONOMY SURVEY

The term of higher education autonomy in Indonesia has become a sensitive topic due to the cancellation of government regulations regarding BHMN (State-owned Legal Entity) by Constitutional Court. The debate on the autonomy of Indonesian universities emphasize on financial and academic autonomy, while autonomy in organization and staffing is still not running. To give a better understanding towards financial autonomy, HELM will conduct a survey for 3 weeks to 87 PTN (State Universities) throughout Indonesia within BHMN (State-owned Legal Entity), BLU (Public Service Board), and regular category.

The survey instrument was initially designed for the purpose of characterizing the overall autonomy of HEIs within a country more so than making distinctions among individual HEIs. The second purpose of the survey is to stimulate discussion among various officials about what autonomy entails more so than come up with a specific number. That is also the primary purpose of the roundtable to stimulate discussion and better understanding of autonomy and how it might relate to funding.

The questions are worded to reflect this reality. Questions that will be exposed to respondents will consists of 10 questions for which existing condition will be on question a and future expectations will be on question b. These ten questions are:

- 1a. In what form are government budget allocations provided to institutions?
- 1b. In the future, what form are government budget allocations provided to institutions?
- 2a. Are there audits of institutional spending?
- 2b. In the future, are there audits of institutional spending?
- 3a. Do institutions get to keep unspent (surplus) government funds?
- 3b. In the future, do institutions keep unspent (surplus) government funds?
- 4a. Are institutions allowed to set their tuition fees?
- 4b. In the future, are institutions allowed to set their tuition fees?
- 5a. Do institutions retain the tuition fees they charge?
- 5b. In the future, do institutions retain the tuition fees they charge?
- 6a. Do government / funding bodies limit how many students an institution may enroll?
- 6b. In the future, do government or funding bodies limit how many students an institution may enroll?
- 7a. Do institutional officials negotiate staff salaries and other terms of employment?
- 7b. In the future, do institutional officials negotiate staff salaries and other terms of employment?
- 8a. Can institutions borrow from banks and in the financial markets?
- 8b. In the future, can institutions borrow from banks and in the financial markets?
- 9a. Do institutions own their buildings and other assets and can they sell them?

- 9b. In the future, do institutions own their buildings and other assets and can they sell them?
- 10a. Do institutions lose government funding when they raise funds privately?
- 1ba. In the future, do institutions lose government funding when they raise funds privately?

The answer to these questions will be graded between 1 to 10, in which 1 is the lowest score and 10 is the highest score.

Approximately, only 62% questionnaires were returned to HELM (only 54 State Universities returned their questionnaires from the original 87 State Universities). There are four PTN (State Universities) from BHMN (State-owned Legal Entity) group, 14 BLU (Public Service Board) from BLU group, and 36 PTN (State Universities) from HEI regular group. Table 1 that is presented below is an average recapitulation of all 54 PTN (state universities) viewed from both existing conditions and future expectations.

Table 1. Questionnaire answers (existing condition and future condition)

Questions Number	Current Condition	Future Condition
1	2.4	6.0
2	2.2	3.6
3	1.4	3.4
4	6.8	7.0
5	6.8	8.2
6	6.6	7.6
7	4.0	6.4
8	4.2	5.7
9	2.0	4.1
10	7.1	7.4

In 'current condition' section, the average result of question 1 is 2.4 which pointed out that government budget allocation is still in the form of line item, while in the future it is expected that these funds became more flexible, closer to block grants formation.

On the second question, it is shown that the current institutions that conduct the current audit is government auditor, this could be seen by average results which are 2.2 and in the future HEI remains hopeful that government auditor would still in effect, this is reflected by the results which are 3.6.

On the third question regarding "do institutions get to keep unspent (surplus) government funds", the average answer shows 1.4 which means that HEIs will not hold surplus from government fund. Whereas in the future, the expected surplus parts can be saved by HEIs which is illustrated by 3.4 points.

While on the fourth question, at the current condition tuition fee was determined jointly by government and HEI (6.8) and in the future the amount of tuition fee will also be decided jointly by government and PTN (7.0).

On the fifth question, current conditions suggest that PTN save some of its tuition fee that was collected from students with a value of 6.8, and in the future condition state universities were expected to have authority in depositing funds from tuition fee (8.2).

The answer to question no.6 signifies that in the current state student admission quota were determined by both government and PTN (6.6), and in the future government intervention in determining the number of students will be reduced (7.6).

And the answer to the seventh question implies that there is little flexibility in increasing and determining employees' salaries (4.0), whereas it is expected to be more flexible in the future (6.4).

Similarly, in question 8, which PTN nowadays can borrow to the banking world with government's permission (4.2), however in the future borrowing permit will be reduced (5.7).

On the question nine, wherein the current state universities and other assets were owned by the government and the state universities has no right to sell these assets (2.0), and the expected future assets ownerships were partially removed to PTN, and PTN can sell these assets with government consent (4.1).

And on the tenth question the number of government funds to state universities are not reduced, although PTN obtain funds independently from various sources (7.1), and in the future the number of government funds will not be reduced (7.4).

When the answer were viewed from PTN answer category, which are BHMN, BLU, and regular, the answer became more interesting to be observed.

Table 2. Questionnaire answers on the current condition and future condition based on PTN type

Questions Number	Current Conditions			Future Conditions		
	BHMN	BLU	Regular	BHMN	BLU	Regular
1	1.3	2.9	3.2	6.8	5.6	5.6
2	2.3	2.3	2.0	3.5	3.6	3.6
3	1.3	1.2	1.8	4.0	2.5	3.8
4	8.3	6.7	5.4	7.0	7.6	6.3
5	9.8	8.5	2.3	9.3	8.9	6.5
6	8.0	5.1	6.7	9.3	5.4	8.1
7	6.5	2.4	3.0	7.5	5.4	6.3
8	7.0	3.9	1.8	6.3	5.6	5.1
9	2.8	1.5	1.7	5.3	2.9	4.2
10	7.0	7.9	6.3	6.8	8.3	7.0

On the current condition the average answer from question 1 for BHMN fall in (1.3) points which shows that the budget allocation from government is still in the form of line item, whereas in the future condition it is expected that these funds become more flexible, closer to the block grants formation (6.8). At this time, both BLU and regular also illustrates line item, but in the future allocation funds allocation become more flexible.

On the second question, it is shown that currently PTN, BHMN, BLU, and Regular use government auditor, and this was shown from the average points that fell in (2.3), (2.3), and (2.2). In the future HEI also hoped that government auditor would still be in effect with value of (3.5), (3.6), and (3.6).

On the third question regarding "do institutions get to keep unspent (surplus) government funds", the answers from BHMN, BLU, and Regular is that HEIs will now hold surplus government fund (1.3), (1.2), and (1.8). Whereas in the future, the expected surplus parts can be partly saved by BHMN (4), but in BLU and Regular surplus fund will be given back to government (2.5) and (3.8).

While on the fourth question, the current condition tuition fee in BHMN was determined by the aforementioned PTN, hared jointly with government and HEI (8.3), and BLU and Regular tuition fee was determined jointly with government. At future condition the amount of tuition fee was also determined by that PTN for BHMN and BLU group, this could be seen from the average points (7.0), and (7.6). Whereas the PTN regular tuition fee was determined jointly between government and PTN (6.3).

On question the fifth question, current condition suggest that PTN, BHMN, and BLU save some of its tuition fee that was collected from in their own PTN, this could be seen in the value (9.8), and (8.5), however in PTN Regular the tuition funds should be returned to government. In the future condition tuition fee in PTN, BHMN, and BLU were

expected to be stored in PTN (9.3), and (8.9), while in Regular funds from tuition fees must be returned to government (8.2).

The answer to question six signifies that at the current condition, student admission quota at BHMN (8.0) and Regular (6.7) were determined by PTN, however, BLU's student admission quota were determined jointly by government and PTN (5.1). At the future condition the student admission quote in BHMN and Regular were also decided by PTN (9.3) and Regular (8.1), whilst at BLU government interference occurs in deciding the amount of potential students (5.4).

The answer to the seventh question indicates that there is little flexibility in PTN BHMN in increasing and determining employee's salaries (6.5), while in PTN BLU and Regular there has no flexibility in increasing and determining employees salaries (2.4) and (3.0). At the future condition, this flexibility would still be in effect to BHMN (7.5), and it also occurs in BLU and Regular (5.4) and (6.3).

In question eight, which PTN BHMN can borrow to the banking world without government's permission (7.0), and in PTN BLU with government's permit (3.9), while Regular could not borrow (1.8). In the future all PTN could borrow without government's permit BHMN (6.3), BLU (5.6), and Regular (5.1).

On the ninth question, wherein all PTN such as BHMN (2.8), BLU (1.5), and Regular (1.7) will not have building and other asset that was owned by government and PTN do not have any right to sell those asset. In the future condition, asset ownership is a mixture between government and HEI, this is especially true in BHMN (5.3) and Regular (4.2). While in BLU building and other assets were owned by government and could not be sold.

And on the tenth question the number of government funds to PTN BHMN (7.0) and BLU (7.9) will not be reduced, even though those aforementioned PTN gain fund independently from various sources. While on Regular, government fund will be decreased for BLU (8.3) and Regular (7.0). And for PTN BHMN (6.8), some part of government fund will be decreased if PTN could gain funds independently.

Summary of Autonomous Survey

1. With the limited 3 weeks time and the numbers of questionnaires sent at 87, and the answers that HELM received are only 54 or the rate of return 62% could be said as well-achieved.
2. Most of the answer from BHMN, BLU, and Regular group are in accordance with conditions, consistent with the previous answer and correct.
3. From the result of this survey in BHMN it is clearly visible more autonomy in financial problems such as the amount of tuition fee, determining the number of admissions, hiring and salary negotiation, borrowing money from banks without

government approval, and there is not a reduction in government assistance if BHMN managed to raise the funds independently.

4. BLU group have little autonomy in deciding the amount of tuition fee, saving the funds that was collected via tuition fee, and not a reduction in government assistance if BHMN were able to raised its fund independently.
5. While BLU group has only one aspect in terms of autonomy, namely the determination of the number of admissions.
6. There is one answer to the question by PTN Regular in question no.6 which is inconsistently asking “do government or funding bodies limit how many students an institution may enroll?”. The answer: PTN Regular determines the student admissions without government interference. However, the realization is the opposite of that statement.

ANNEX F: SUMMARY OF MAIN PRESENTATIONS

HELM ROUND TABLE FORUM 25 JUNE 2012

Session One:

Higher Educational Financial Systems and the Regulatory Environment

Arthur Hauptman, Education Finance Consultant, HELM

1. Mr. Hauptman started out by stating that we must look at autonomy not as a single concept. Indeed, there are actually many varying levels of autonomy and one of the focuses of this project is to establish what level of autonomy is best.
2. The HELM project thus far has identified six criteria for HEIs to assume increased responsibility. On the vertical dimension there are ten responsibilities and on the horizontal dimension there are six criteria (please refer to body of assessment report), with each criteria having many other criteria of their own. We also argue that responsibility should flow from capability. However, we are not certain if these criteria are accurate; we hope to get feedback from your opinions.
3. HE in Indonesia today is typified with increasing demand alongside a limited availability of public funds. To move forward, new finance and governance strategies are needed. In terms of finance strategies there are three main strategies:
 - a. To increase tuition fees.
 - b. To increase enrolments in public HEIs. If 10% more money is required from students, we can raise our prices by 10% or increase 10% on the number of students and both are equally effective in increasing resources.
 - c. To expand the role of the private sector. This is the policy to increase enrolment.

Indonesia has been using all three strategies but still the Indonesian government spends relatively little compared to others in region, and the large majority of investments are from private sector. The amount of public funds per student is very low, and this leads to concerns over quality.

4. By decentralising autonomy more flexibility is given to HEIs. This can also mean that HEIs are more able to adapt to a lack of funds from the government. Decentralization steps in various countries include:
 - Enact legislation that establishes universities as independent entities
 - Create buffer body to fulfill responsibilities previously borne by government
 - Shift quality assurance to agencies external to government
 - Establishing performance contracts between HEIs and government agencies
 - Setting performance measures as a form of greater accountability
 - Reducing regulations governing HEIs
 - Giving HEIs more autonomy over certain responsibilities and functions
5. In the South East Asian region, there is much emphasis on using regulation and legislation to change relationships. In fact, this method is not commonly used

elsewhere in the world expect perhaps in Eastern Europe. If we are to rely on the legal system to change relationships, the definitions and understanding needs to be very strong. Quality assurance has to also be very strong.

6. At the moment, Indonesia has a multi-functional definition of autonomy. The definition can therefore be unclear. Clearer definitions and expectations of all stakeholders need to be better laid out. Indonesia is actually one of few countries which categorises its higher education institutions by their level of autonomy. Using this system can be very complex.

Mr. Hauptman recommended that the government and HEIs sit together to go through the list of the ten responsibilities with the aim of understanding from each party what their preferences would be.

7. Granting autonomy does not entail giving any and every institution to set its own fees. If tuition fees are sent back to the government, then there is no need for institutions to set fees themselves. Enrolment caps, however are an issue and often institutions need to decide for themselves the right balance of students.
8. Indonesia has above average academic autonomy. However, in organisational autonomy, Indonesia is falling behind. There are no boards of trustees and this creates a lack of a body between public HEIs and the government. Mr. Hauptman argued that it is not healthy for the government to have that much responsibility for day to day running of HEIs governance and not have another layer between Rector and government. Secondly, to improve equity we need a basic system such as a voucher system with high weight on students of low income.
9. Generally, there are four options when reducing government spending: first to cut the number of students; second to change the mix of students by, for example, bringing in more international students; third to increase fees and lastly to increase enrolment. However, increasing the enrolment is the option which is always the least favourite option. Perhaps this can be explained since universities do not want the legislature to know that they can produce more with lower budgets. Furthermore, we must be specific when talking about where the funds are coming from to support the growth of community colleges in Indonesia. In the United States, a prominent problem is that they are often underfunded and the colleges do not always get to keep the fees, meaning there is little incentive to increase enrolments.

Comment:

Bagyo Moeliodiharjo

Lecturer of Computer Science at the University of Indonesia

1. Mr. Moeliodiharjo started by explaining that the current discourse needs to work on a comprehensive picture and analysis on governance and autonomy. We also need to understand that autonomy is not only limited to financial management.
2. Indonesia's higher education system is very complex with over 3000 institutions, and is very hard to manage. Therefore, decentralisation and increased autonomy is necessary. So far, we have not been successful. The current legal structure does not protect autonomy. Indonesian higher education is not protected under the law and our universities are founded only by ministerial decree. There is no protection for autonomy. It can be given and taken away by a ministry at their concession.
3. Over the last 6 years, the Government has increased its budget on education four fold. However, additional money has no merit if it is not channelled properly. Today, the system depends on trust. Therefore, strong leadership and strong morals have more power than a strong system.
4. We still need to work out the student unit cost. Without knowing this cost, we cannot determine which price is the most reasonable. There are still equity problems and those from higher incomes are much more likely to attend higher education. The idea is to transform government budget into scholarship that are directly channelled to students. Lastly, beyond the Minimum Service Standards (MSS), universities should receive incentives apart from salaries.
5. The efficiency is higher at public universities compared to private. Overstaffing actually causes inefficiencies, and it is unfair to put these inefficiencies on students. Furthermore, costs are increasing in part due to inefficiencies.

Session Two:

Financial Aspects of HEI in Indonesia: Learning from the Best Practices of BLU System

Pamela Marcucci, HELM Financial Management Advisor

1. Requirements for broadening financial responsibility
Ms. Marcucci's research identified six criteria:
 - a. Independent (and eventually, integrated) financial management/accounting system
 - b. Independent human resource management system
 - c. Independent infrastructure & facilities management system
 - d. Independent strategic decision making
 - e. Sufficient cost recovery
 - f. Institutional efficiency and productivity monitoring

However, she stated that her research does not prove that these six criteria are the completely correct, and she wished to gain feedback from the participants on their views. She had looked at the requirements for establishing a BLU institution, and had found that there a difficult number of regulations to deal with and that there is a lack of information on an independent human resource management system. She also argued that there are many loopholes in Regulation 119.

2. Ms. Marcucci wanted to raise the questions: Does the current data collection system adequately assess HEI's capacity to take on additional financial responsibilities? Should we collect different data? How does the government assess the information it collects?
3. Ms. Marcucci gave the example of an autonomous university which is currently negotiating to become a BLU that would retain its board of trustees. The board would retain the ability to look at budget. Ms. Marcucci asked if it is likely that there will there be many types of BLUs in Indonesia. Unit of ministry yes but unit within body which has authority in decision making.

Comment:

Mr Catur Ariyanto Widodo

Head of the Sub-Directorate BLU II in Ministry of Finance

1. Mr. Catur explained that the basic concept of BLU lies in the division of authority as stated in Law No 17 of 2003 on State Finance, positioning the President and Minister of Finance as fiscal manager of the country, and line ministries as CEOs of budgets. Authority is then transferred to Governors and heads of districts.
2. We have to understand that financial management is only one aspect which determines the success of agency management. Within the current financial management, there are several limitations. For example, looking at autonomy the question emerges: How far will autonomy be granted by line ministries?
3. There are three main types of financial management as follows:
 - a. Spending unit: Line ministries are not allowed to directly manage revenues.
 - b. BLU: Flexibility is given in using revenues.
 - c. BUMN (State-Owned Enterprise): autonomous
4. Mr. Catur commended Ms. Marcucci for delivering a good presentation, however he stated that only administrative regulations had been used and so not all the references were accurate. Technical regulations such as the PMK (*Peraturan Menteri Keuangan*, Ministry of Finance Regulation) and PP (*Peraturan Pemerintah*, Government Regulation) have been omitted. Mr. Catur also wanted to clarify that the use of PNBPN (non-tax revenue) is not categorised as private money but as public money. In the management context, however, flexibility is

given. The use of PNBPN directly is the main feature in BLU. No direct use, no use of PNBPN as a whole.

5. Overall, there are three main flexibilities desired by universities: collaboration, investment, and borrowing. Currently, there are limitations from the system. For example, is the current level of borrowing available to universities and BLUs borrowing enough to manage risks? Furthermore, borrowing with Government bonds and banks, the interest is relatively high.
6. Infrastructure and facilities: an urgent issue is asset management of BLU, so they can increase income (cross-subsid). When an administrative assessment of BLUs is undertaken, it will not necessarily illustrate BLUs as a whole.
7. Mr. Catur argued that capacity building is the main problem in developing HEIs. He argued that most institutions lack capable staff in financial management. At the moment an effective system is not in place. Mr. Catur also argued that out of seven BHMNs, only four can properly manage their finances.

Comment from Mr. Hauptman

In conclusion, Mr. Hauptman stated that he saw Indonesia's higher education system as one which is trying to find the balance between a highly regulatory system and one which does not depend too much on government money. In order to increase the gross enrolment rate, it will be necessary to involve the private sector.

ⁱ See Fielden, Global Trends in Governance, for an elaboration of this list, and Salmi J. and Hauptman, A. for a discussion of performance contracts.

ⁱⁱ Raza.

ⁱⁱⁱ See discussion in Raza, pp. 7-13

^{iv} For a good discussion of different kinds of autonomy, see Estermann, T. and Nokkala, T., *University Autonomy in Europe I*